


**Rhong Khen International Berhad****Maintain NEUTRAL**

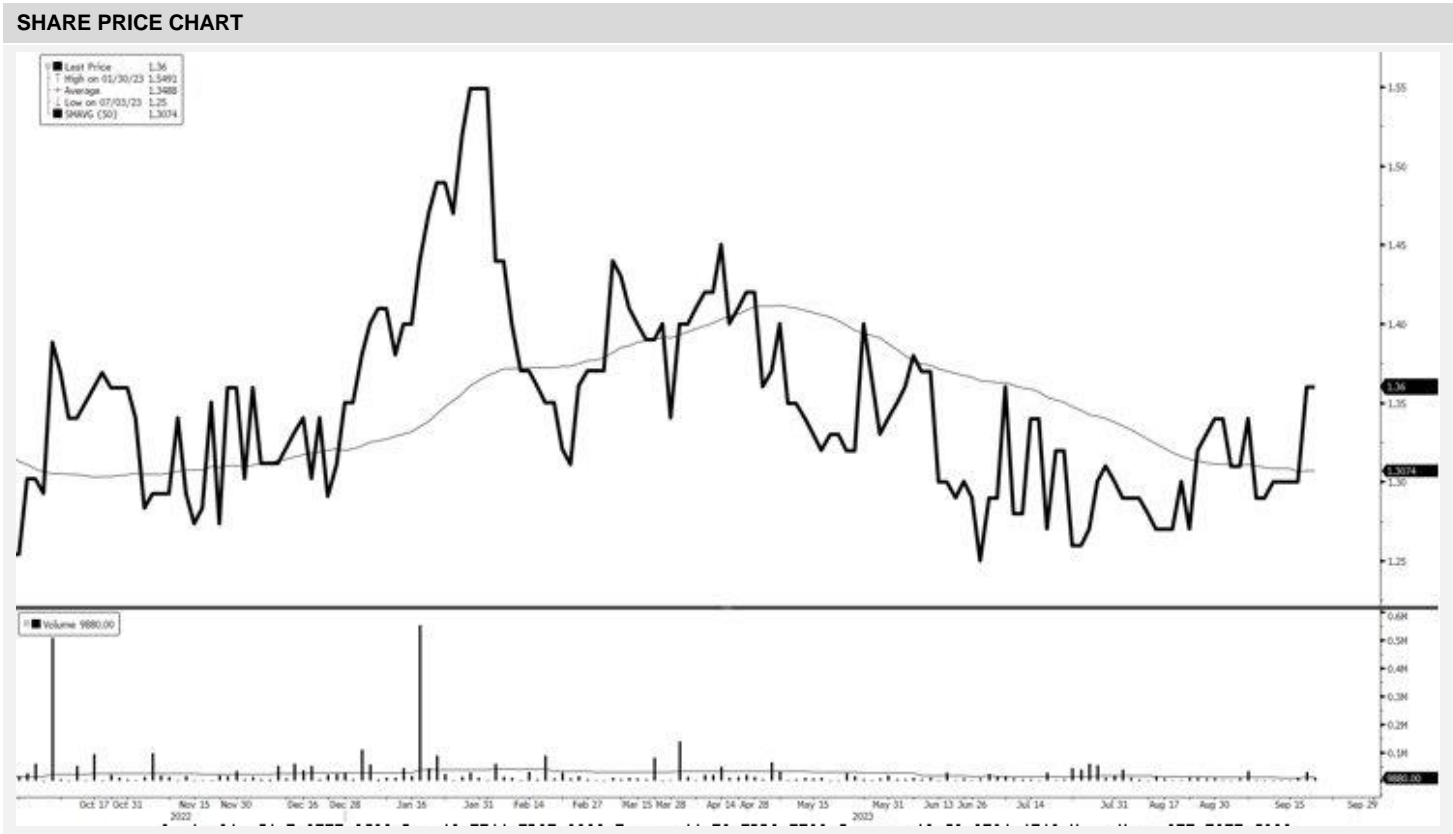
(7006 | RKI MK) Main | Consumer Products &amp; Services | Household Goods

**MoU with PTT Synergy for System Pallet Business****Unchanged Target Price: RM1.35****DEVELOPMENT**

- Rhong Khen International has signed a Memorandum of Understanding (MoU) with PTT Synergy Group Berhad to collaborate on creating a system pallet business.
- The system pallet business aims to meet the increasing demand for efficient supply chain management and logistic services within an automated intralogistics warehouse.

**OUR VIEW**

- We are positive about this announcement as we anticipate that the completion of an automated intralogistics warehouse will enhance supply chain and logistics efficiency hence indirectly lowering operational expenses.
- Based on the MoU, PTT Synergy commits to manufacturing and installing 200,000 system pallets within two years from the Definitive Agreement's date. PTT Synergy will also be in charge of pallet development, supply, and maintenance to support the automated intralogistics warehouse ecosystem. Note that the Definitive Agreement is scheduled to have a 12-month period, and failing to reach an agreement will result in the automatic termination of the MoU.
- However, specific details of the Definitive Agreement, including mutually agreed terms and conditions for the implementation and execution of the automated intralogistics warehouse, have not been disclosed. Also, the group anticipates that the MoU will have no significant impact on the company's financial performance for FY24. As such, we make no changes to our earnings forecast for FY24-26F, pending further information.
- Looking ahead, we foresee subdued demand for furniture in the near term, given the prevailing over-inventory situation in the US and other challenges, which are expected to result in reduced customer orders and, consequently, lower revenue. While there may be occasional volume increases in certain quarters, we believe such fluctuations are unlikely to be sustainable in light of these headwinds. On a positive note, RKI has a healthy net cash position of RM162.5m in 3QFY23, equivalent to 62.5% of its total market capitalization, providing a buffer against downside risks.
- Maintain **NEUTRAL** on Rhong Khen International, with an unchanged **TP of RM1.35**. Our TP of RM1.35 is derived from FY24F's BVPS of RM3.20, multiplied by the two-year historical mean P/BV ratio of 0.4x.
- **Potential catalyst** for a re-rating is strong housing sales in the US, leading to higher-than-expected demand for RKI's wooden furniture. 



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**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>756.3</b>	<b>649.4</b>	<b>631.4</b>	<b>672.7</b>	<b>698.5</b>
Cost of Sales	(650.8)	(571.2)	(553.1)	(586.3)	(606.4)
<b>Gross Profit</b>	<b>105.5</b>	<b>78.2</b>	<b>78.3</b>	<b>86.4</b>	<b>92.1</b>
Other Income	4.3	4.0	4.0	4.4	4.5
Selling and distribution expenses	(21.8)	(19.1)	(18.7)	(20.0)	(20.5)
Administrative expenses	(29.3)	(26.8)	(26.2)	(28.1)	(28.9)
Other expenses	(9.0)	(8.2)	(7.9)	(8.4)	(8.6)
<b>EBITDA</b>	<b>69.1</b>	<b>47.4</b>	<b>51.7</b>	<b>58.3</b>	<b>63.8</b>
<b>EBIT</b>	<b>49.8</b>	<b>28.1</b>	<b>29.5</b>	<b>34.4</b>	<b>38.6</b>
<b>Profit before tax (PBT)</b>	<b>48.8</b>	<b>27.9</b>	<b>30.1</b>	<b>35.0</b>	<b>39.2</b>
Profit After tax (PAT)	35.5	21.9	22.6	26.3	29.5
<b>Core PATANCI</b>	<b>38.1</b>	<b>25.8</b>	<b>22.6</b>	<b>26.3</b>	<b>29.5</b>
Core EPS (sen)	19.6	13.3	11.6	13.6	15.2
DPS (sen)	6.0	4.0	3.5	4.1	4.6

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	255.5	267.8	278.1	288.8	299.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
<b>Total Non-current assets</b>	<b>340.6</b>	<b>354.7</b>	<b>366.6</b>	<b>379.2</b>	<b>391.8</b>
Inventories	253.4	151.4	146.6	154.7	160.0
ST - Trade and other receivables	82.5	43.2	51.1	53.3	55.4
Cash and cash equivalents	267.4	194.9	199.0	212.4	221.0
<b>Total current assets</b>	<b>607.6</b>	<b>458.0</b>	<b>398.1</b>	<b>422.0</b>	<b>438.0</b>
<b>Total Assets</b>	<b>948.2</b>	<b>812.7</b>	<b>764.8</b>	<b>801.1</b>	<b>829.7</b>
<b>Total Equity</b>	<b>655.3</b>	<b>685.7</b>	<b>614.9</b>	<b>642.6</b>	<b>665.1</b>
LT Loans and borrowings	26.0	17.3	18.2	19.1	20.1
<b>Total Non-current liabilities</b>	<b>34.8</b>	<b>26.6</b>	<b>27.5</b>	<b>28.8</b>	<b>30.0</b>
ST Trade and other payables	117.1	53.0	75.1	79.6	82.3
ST Loans and borrowings	103.3	15.1	15.9	16.7	17.5
<b>Total Current Liabilities</b>	<b>258.2</b>	<b>100.4</b>	<b>122.3</b>	<b>129.7</b>	<b>134.5</b>
<b>Total Liabilities</b>	<b>292.9</b>	<b>127.0</b>	<b>149.8</b>	<b>158.5</b>	<b>164.6</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	48.8	27.9	30.1	35.0	39.2
Cash flow from operations	26.6	115.8	84.7	55.5	52.9
Cash flow from investing	(27.9)	(24.5)	(30.1)	(32.0)	(33.3)
Cash flow from financing	(20.5)	(114.6)	(8.8)	(10.0)	(11.0)
<b>Net cash flow</b>	<b>(21.8)</b>	<b>(23.3)</b>	<b>45.8</b>	<b>13.5</b>	<b>8.6</b>
(+/-) Adjustments	7.3	6.0	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>185.0</b>	<b>170.5</b>	<b>153.1</b>	<b>199.0</b>	<b>212.4</b>
<b>Net cash/(debt) c/f</b>	<b>170.5</b>	<b>153.1</b>	<b>199.0</b>	<b>212.4</b>	<b>221.0</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	27.2	21.5	24.9	24.9	24.9
PER (x)	7.6	11.7	11.7	10.0	9.0
P/BV ratio (x)	0.4	0.4	0.4	0.4	0.4
Net Cash/Market Capitalisation (%)	52.2	61.5	62.5	66.9	69.5
Cash/share (sen)	0.1	0.6	0.4	0.3	0.3

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	14.0	12.0	12.4	12.8	13.2
EBIT Margin (%)	6.6	4.3	4.7	5.1	5.5
Core PATANCI Margin (%)	5.0	4.0	3.6	3.9	4.2

Source: Bloomberg, MIDFR

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology